



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION 6  
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DALLAS TX 75202-2733

JUL 16 2014

Mr. J.T. Lane  
Assistant Secretary  
Louisiana Department of Health and Hospitals  
628 North 4<sup>th</sup> Street  
Baton Rouge, LA 70802

Dear Mr. Lane:

Enclosed please find the final State Fiscal Year (SFY) 2013 Drinking Water State Revolving Fund (DWSRF) base program annual Program Evaluation Report (PER) for your review. The report is based on the State's FY 2013 Drinking Water Revolving Loan Fund (DWRLF) Annual Report, on-site discussions and file reviews at the State office on February 10-13, 2014, and the Environmental Protection Agency's (EPA) completion of our standardized national checklist of program evaluation questions. We appreciate your DWRLF Program's assistance in this review process.

The program is commended for complying with section 1452 of the Safe Drinking Water Act (SDWA) and 40 CFR 35.3570(c), the capitalization grant, as well as the operating agreement conditions. While minor issues were identified and resolved with the DWRLF's project files and accounting process; EPA is encouraged by the program's positive progress that is demonstrated by their cumulative financial indicators, standardization and documentation of program procedures, and their detail to timekeeping, etc.

If you have any questions regarding the report, please contact me at (214) 665-7100, or have your staff contact Mr. Maurice Rawls, Chief, SRF and Projects Section, at (214) 665-7120.

Sincerely,

William K. Honker, P.E.  
Director  
Water Quality Protection Division

Enclosure

Cc: Jenny Wilson, LDHH,  
DWRLF Manager



**DRINKING WATER STATE REVOLVING FUND**  
**2013 BASE PROGRAM END OF YEAR REPORT**

**STATE OF LOUISIANA**

**July 1, 2012 – June 30, 2013**

**Prepared by EPA Region 6**

**Assistance Programs Branch**

## **I. Introduction**

The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the state's Fiscal Year 2013 (SFY 2013) operation of the Louisiana Drinking Water Revolving Loan Fund (DWRLF) Program, and to document whether the State has complied with the requirements of Section 1452 of the Safe Drinking Water Act (SDWA) and 40 CFR 35.3570(c).

## **II. Review Results and EPA Recommendations**

This annual program review covered the SFY 2013 operation (July 1, 2012 to June 30, 2013), as well as previous years, and was conducted at the Louisiana Department of Health and Hospitals (LDHH) office. The review was conducted on February 10-13, 2014 and covered up to active grant FS-996968-15. We reviewed two project files: (1) City of Ville Platte (Loan #2); and (2) South Vernon Parish Waterworks, District #1.

Notwithstanding the following observations, the Environmental Protection Agency (EPA) found that LDHH is in compliance with Section 1452 of SDWA and 40 CFR 35.3570(c), its capitalization grant conditions, as well as the operating agreement conditions.

### **A. Programmatic Review Results and Recommendations**

#### **1. Grant Administration**

Along with their continuous commitment to providing communities in Louisiana with both clean and affordable drinking water, the DWRLF program attributes their program's continued success to several program decisions. Their 2009 decision to couple base program funds with American Recovery and Reinvestment Act (ARRA) funds and their effective use of 'additional subsidization' continue to lure potential applicants to the program.

In SFY 2012, the LA DWRLF program closed six binding commitments totaling \$18,290,000, awarded seven loans totaling \$26,290,000 and had nine project initiations.

In SFY 2013, the LA DWRLF program closed ten binding commitments totaling \$32,055,000, awarded ten loans totaling \$32,055,000 and had fourteen project initiations. Although the program closed four grants the previous state fiscal year, the disbursements, though satisfactory for the state of the program, were not enough to close the \$25.6 M grant from FFY 2010.

**EPA Commendation:** EPA congratulates the LA DWRLF program for continuing the positive pace of their program.

## **2. Disadvantaged Business Enterprise (DBE)**

At a previous on-site review in early 2012, it was determined that LDHH had not been submitting its quarterly MBE/WBE/DBE reports in a timely manner. After assigning the role to a DWRLF team member in 2012, all quarterly DBE reports have been timely submitted. The program continued to submit reports on a timely basis in 2013.

**EPA Commendation:** EPA commends the LA DWRLF for their revised DBE process so that the reports continue to be provided on a timely basis to Region 6.

## **3. Staffing**

EPA was pleased to observe that all LA DWRLF immediate personnel positions remain filled. All staff remain aware of their roles and responsibilities and have SOPs in place for their positions. EPA is also pleased that the LA DWRLF will ensure that a succession plan is formulated so that the transfer of institutional knowledge takes place prior to retirement of staff.

As follow-up to the SFY 2012 review, EPA was pleased to observe that LA DWRLF staff continue to monitor and document work carried out by DWRLF staff to verify that activities are billed to appropriate set asides. The excessive payroll charges found in the SFY 2012 review were to account for PWSS staff that should have charged their activities to the DWRLF grant and had not. Consequently, an adjustment had to be made. EPA coincidentally picked the week this was done as the test week. DWRLF staff continues to work with their administration to ensure that rent and payroll charges to their federal grants are made on actual personnel activities versus budget estimates.

**EPA Commendation:** EPA commends LDHH for charging actual versus budgeted personnel to the DWRLF grant. EPA also commends the program for completing biweekly timesheets and for continuing to monitor payroll and rent charges.

## **B. Engineering Review Results and Recommendations.**

### **1. Oversight of Projects in post-award phase.**

LDHH maintains adequate oversight of all Base and ARRA-funded projects through construction completion to ensure that they adhere to all applicable grant conditions.

**EPA Commendation:** EPA commends LDHH for their effective project filing

system, record keeping processes and maintenance of systems. EPA also appreciates the program's willingness to post project files on the Internet for Region 6's review.

## **2. Engineering Program Review Results and Recommendations**

### **a. EPA Headquarters November 5, 2013 Memorandum entitled "Procedures for Implementing Environmental Federal Cross-Cutting Authorities in the Clean Water and Drinking Water State Revolving Fund Programs."**

On November 5, 2013, EPA Headquarters issued a memorandum clarifying procedures for applying federal environmental cross-cutting authorities to projects and activities receiving assistance under the CWSRF and DWSRF. The memo provides flexibility to the States in that State SRF staff may (1) choose to perform an internal analysis and conclusively determine that the proposed project has no potential impact related to a federal cross-cutting authority, without receiving input from the agency responsible for that cross-cutter {less stringent option}, or (2) the State SRF staff can require a written response from each cross-cutting agency, for projects in an amount equivalent to the capitalization grant {more stringent option}. The memo does not specifically state it, but if the State SRF staff determines that there is no environmental impact, without consulting with the federal cross-cutting agencies, the State is liable should it be determined at a later date that there was in fact an environmental impact. If your State program intends to implement the less stringent option now and/or in the future, please notify your EPA R6 project officer so that EPA can review appropriate updates to the State's internal process documents, and appropriate project file documentation can be discussed prior to the next EPA R6 regularly scheduled onsite review.

## **3. Project Review**

### **a. The South Vernon Parish WWKS District 1**

EPA appreciates LDHH's effort to post project files on the Internet for Region 6's view; as well as for LDHH's prompt response to the minor matters that were encountered. No significant issues were discovered by Region 6.

**b. The Ville Platte - Loan 2 - DWSRF**

EPA appreciates LDHH's effort to post project files on the Internet for Region 6's view; as well as for LDHH's prompt response to the minor matters that were encountered. No significant issues were discovered by Region 6.

**C. Financial Review Results and Recommendations.**

**1. Cash Draws**

On December 11, 2013, EPA regions were notified by EPA's Office of the Chief Financial Officer (OCFO), on behalf of the Office of Management and Budget, to conduct random SRF transaction tests. The random tests were to develop a national estimate of improper payments for the SRF programs. Four (4) base transactions were randomly selected from the LDHH DWRLF program's SFY 2013 draws. Three (3) by OCFO and one (1) by EPA Region 6.

The following four (4) LDHH DWSRF cash draw transactions were reviewed.

<u>Grant #</u>	<u>Date</u>	<u>Federal Draw</u>
1. FS99696813	02/04/13	\$27,347.32 OCFO
2. FS99696813	10/10/12	\$555,557.34 OCFO
3. FS99696814	04/01/13	\$905,916.52 OCFO
4. FS99696815	05/23/13	\$555,287.80 EPA Region 6

Cash draw #1 for \$27,347.32 selected by OCFO contained all of the backup documentation needed to substantiate the transaction. The total invoice submitted was for \$91,157.73. Of this amount 30% was allocated to principle forgiveness. The remainder of the invoice was paid by "Base draw" which is a percentage set for each capitalization grant by LDHH for both Federal and State Match funds. Because of LDHH's interpretation of their Constitution, the principle forgiveness portion was allocated from 100% Federal funds. Thus no improper payment was noted.

Cash draw #2 for \$555,557.34 selected by OCFO contained all of the backup documentation needed to substantiate the transaction. The invoice submitted by City of Alexandria to LDHH submitted the improper amount to reimburse the recipient. The amount was short fourteen cents (\$0.14).

This was an oversight and would be corrected on the next invoice submitted by the recipient. Another improper payment was found for two invoices submitted by Foley & Judell LLP for the Town of Litcher project. The first invoice for \$12,523 was not complete and had no date so the LDHH engineer requested a new invoice. The new invoice amount changed to \$12,298, therefore \$225 less. Thus noting this amount as an over payment and an improper payment. The second invoice had the same issue with the original being \$3,823 and then changing to \$3787. Therefore an over payment for \$36. The total over paid was for \$262.00. The total improper payment for this transaction is \$216.14. EPA Region 6 was informed that the State modified internal controls to add another reviewer of the final disbursement by the financial staff to ensure that invoices are paid correctly.

**EPA Recommendation:** Ensure that each improper payment is resolved in a timely matter and is properly noted in the file. Please provide EPA Region 6 documentation once the improper payment is resolved. This must be completed within 30 days from the final PER.

**LDHH Response:** The over payment will be withheld from future invoices to ensure actual costs and not estimates have been paid.

**EPA Response:** Thank you.

**EPA Commendation:** The State is to be commended for modifying internal controls to add another reviewer of the final disbursement by the financial staff to ensure that invoices are paid correctly.

Cash draw #3 for \$905,916.52 that was selected by OCFO had all of the required invoices and documentation to substantiate this transaction. There were no improper payments on this transaction.

Cash draw #4 for \$555,287.80 selected by EPA Region 6 had all of the required invoices. However, the invoice for Balar Engineers & Surveyors for the Town of Blanchard New WTP project had an adjustment that was not clear. The invoice was for \$26,824.56. Yet, there was a hand written adjustment made to the invoice changing it to \$26,817.36 for a difference of \$7.20. When the invoice was reimbursed, the amount paid was for the original invoice amount and not for the adjusted amount. An improper payment occurred due to an error in calculations for \$7.20 over the corrected amount. The adjustment was never made for the reimbursement.

**EPA Recommendation:** Please ensure that this improper over payment is corrected and documented in the file. Please provide documentation to EPA once this is resolved. This must be completed within 30 day from the final PER.



**LDHH Response:** The over payment was corrected on the next reimbursement (#22) by adjusting the percent complete to determine the correct earned amount as of \$22. All adjustments and changes on any invoices will be fully documented.

**EPA Response:** Thank you. EPA appreciates LDHH prompt response to this mater.

**EPA Recommendation:** Please ensure that all adjustments and changes on any invoices are fully documented.

## 2. ULO's

Currently, the LA DWRLF program has four open capitalization grants (2010, 2011, 2012, and 2013). EPA Headquarters recommends that state SRF programs only have two capitalizations grant open at one time. National guidance encourages states to draw down their federal funds within two years from receiving their capitalization grant. Although, it is not ideal for LDHH to have four open grants, it is understandable since the program made the decision at the inception of the Green Project Reserve and Addition Subsidization effort to tie green and subsidy to each capitalization grant. LDHH is now sensitive to tracking both green and subsidy, while tracking green and subsidy in an alternative process and moving forward with the First In First Out (FIFO) method of fund disbursement.

**EPA Recommendation:** Use the FIFO method of fund reimbursement, to enable LDHH to close out several of their open grants.

## 3. State Match

The DWSRF program requires that the State match the capitalization grant with 20% State funds. LDHH's State match is acquired from Bond Indenture and the match is deposited in lump sums before the federal cash draws are drawn.

LDHH historical understanding of "The Constitution of Louisiana At. VII, Sec. 14," was that it did not allow state funds to be "loaned, pledged, or donated to or for any person, association, or corporation, public or private". This interpretation was also applied to principle forgiveness.

Therefore, LDHH funds "private" and "principal forgiveness" loans with a 100% draw of federal funds. Yet, they postpone the required match (about 18%) until a "public" loan is processed at which time the "public" loan is funded from the match reserved in the fund plus the required match

percentage of the remaining loan total. Any balance is then drawn from federal funds. This complex method resulted in the actual funding of each loan to be over or under the required percentages in the grant award, especially as the end of the grant year approaches. The sequence of loans would often result in more state match fund in the fund than actually disbursed.

To simplify the process and avoid any overmatching, LDHH proposed funding all types of loan exactly in proportion to the overall requirements of the grant award. That would involve any loan (public, private, green, principal forgiveness) being funded in part with federal funds and in part with match funds in proportion to the overall award funding ratio. This process was approved on December 12, 2012. Yet, the change was not effective until LDHH realigned the cumulative actual funding ratios to the overall grant percentages. According to LDHH, the new method was in effect by March 2013.

#### **4. Financial Management**

The State is currently managing its financial program in a successful manner. The program has the staff and financial internal controls to minimize deficiencies and potential risk to the program. Internal controls are continuously reviewed and/or modified to improve efficiency and prevent errors.

#### **5. State Audit**

The SFY 2013 Louisiana "Single Audit Report" for the year ended June 30, 2013 was completed March 6, 2014. No material weaknesses or findings were reported for the SRF program in the audit information that was submitted to EPA.

#### **6. Financial Indicators**

The State reported the following cumulative financial indicators:

	<u>National</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Return on Federal Investment	175.1%	110.7%	111.6%	113.2%
Assistance Provided as % of Funds Available	91.0%	80.4%	88.7%	82.6%
Disbursements as % of Assistance Provided	85.3%	80.1%	81.0%	81.5%
Net Return on Contributed Capital	8.2%	0.3%	0.8%	0.6%
Set-Aside Spending Rate	84.0%	79.3%	80.9%	90.1%

Date Source: SFY 2013 NIMS Report

Louisiana's primary financial indicators are holding firm, with slight increases and decreases in the most recent three-year evaluation period. At the end of SFY 2013, LDHH was under the national average in several of the primary financial indicators. Yet, it is exceeding the national average in their set-aside spending rate, due to efficient planning and implementation of set-aside funds.

**EPA Recommendation:** EPA encourages LDHH to continue to improve on their financial indicators, especially on the "Assistance Provided as % of Funds Available" a.k.a. the 'pace' of the program. EPA encourages LDHH to add to their short-term financial goals to "exceed the national average" for each financial indicator.

**EPA Commendation:** EPA is encourage to see the 9.2% increase in set-aside spending.

### **III. Disclosure Statement**

We have conducted an annual review of Louisiana's DWRLF Program for SFY 2013 in accordance with EPA's SRF Annual Review Guidance. All sections of the guidance document were covered.

#### IV. SFY 2014 PER Recommendations

ACTION ITEMS	RESPONSIBILITY	DUE DATE
1. For Cash Draw #2, ensure improper payment is resolved and noted in the file.	LDHH	Within 30 days of Final PER. Notify EPA of resolution.
2. For Cash Draw #4, ensure improper payment is resolved and noted in the file.	LDHH	Within 30 days of Final PER. Notify EPA of resolution.
3. Ensure all adjustments and charges are fully documented.	LDHH	With all future invoices.
4. Use FIFO method of fund reimbursement.	LDHH	Already in use.
5. Update financial indicators.	LDHH	With next Intended Use Plan.